The generational balance sheet: Younger investors begin to push the envelope

Real estate ownership and retirement investing are powering Millennial asset growth and demonstrating the need for holistic financial advisory services.

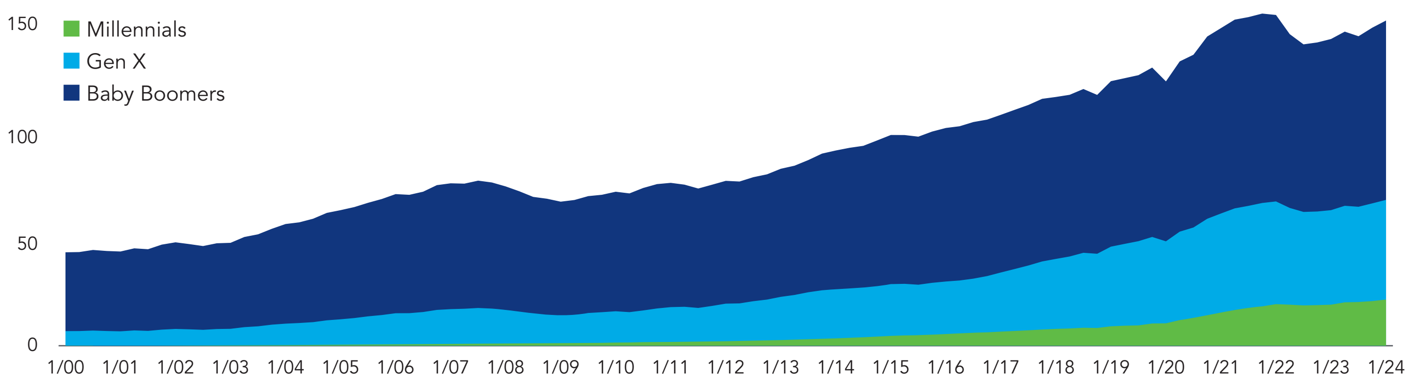
The Millennial generation has quietly built wealth and affluence at head-spinning speed since the oldest of their cohort turned 40 three years ago. While it's risky to generalize about the largest, most diverse generation, the data are clear that Millennials are building wealth faster than their predecessors.

At the same time, most financial advisors' clients are Baby Boomers and older and many advisors themselves are within a decade or so of retirement. In this updated paper we offer advisors the latest intelligence on shifts in generational wealth and, more importantly, how they can better engage younger investors.

Generational total assets nearly recover levels attained before 2022 market declines

As of March 31, 2024 (most recent data available), assets of the three major generations nearly recouped peak levels of $155.3 trillion reached in the fourth quarter of 2021 before the stock and bond market declines in 2022. Total assets recovered to $152 trillion on the back of rising capital markets in 2023 and early 2024. The Millennial generation—which has benefited from increases in value in real estate and other savings—grew assets on an inflation-adjusted basis by an astonishing $11.1 trillion (106%) since early in the Covid pandemic in 2020 to $21.6 trillion.

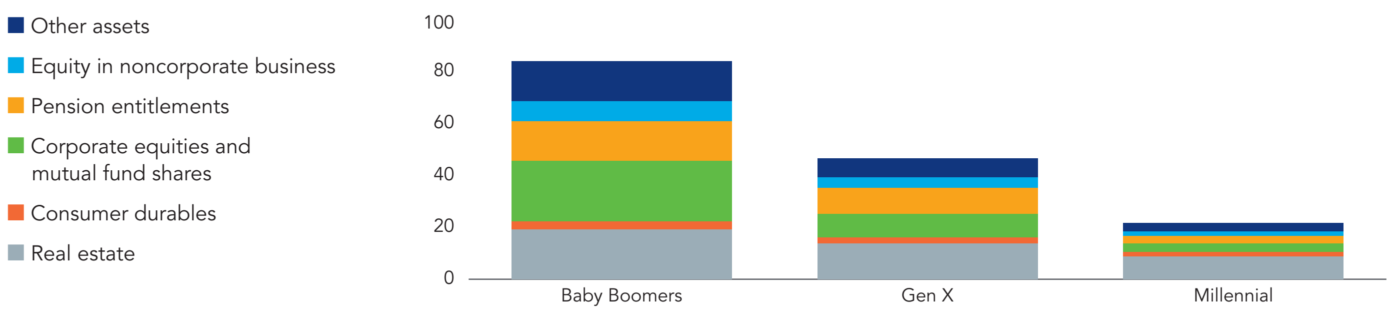
Long-term growth in assets ($trillions)



Source: Federated Hermes analysis; Board of Governors, Federal Reserve, Financial Accounts of the United States.

Millennial real estate assets now stand at about $8.7 trillion, up from $7.3 trillion a year ago and nearly doubling in value from $4.4 trillion in Q1 2020. As the youngest home-buying generation (Gen Z's home ownership is nascent) and with fewer years to build equity, total Millennial real estate holdings are 63.5% of Gen X's and 45.3% of Baby Boomers', respectively, compared to 27.9% of Boomers' and 39.8% of Gen X's real estate assets in early 2020. Millennial and Gen X home mortgage debt is nearly double that of Baby Boomers at about $5 trillion and $5.1 trillion, respectively, though a sizeable amount of that debt was likely refinanced at lower rates back in 2022.

Assets by generation ($trillions)



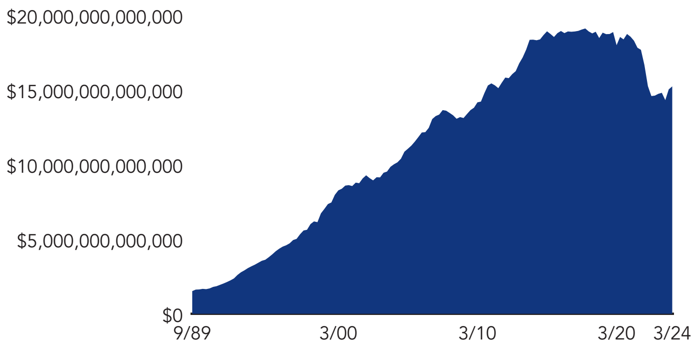
Sources: Federated Hermes analysis; Board of Governors, Federal Reserve, Financial Accounts of the United States.

Millennial retirement assets recovery

In terms of retirement assets or pension entitlements[1], much like their total assets, Millennials have managed to grow retirement accounts while the other major generations have yet to recover from financial market declines. Millennial retirement assets were $2.8 trillion in Q1 2024, up from $2.5 trillion at the market peak in Q4 2021, while Gen X and Baby Boomers' retirement funds haven't recaptured peak levels, although this comparison does not consider the underlying investment mixes of the respective generations, i.e., older investors might be more conservatively invested.

Baby Boomers continued leaving the workforce (and workplace retirement plans) in increasing numbers and now equal less than half the number of the Gen Xers employed. Millennials, on the other hand, continued their pre-Covid employment growth trajectory with 57.9 million employed in early 2024. Millennials and Gen Z combined now represent a majority of workers and are estimated to grow to more than 60% of the workforce by 2031.[2]

Baby Boomers' retirement assets ($trillions)



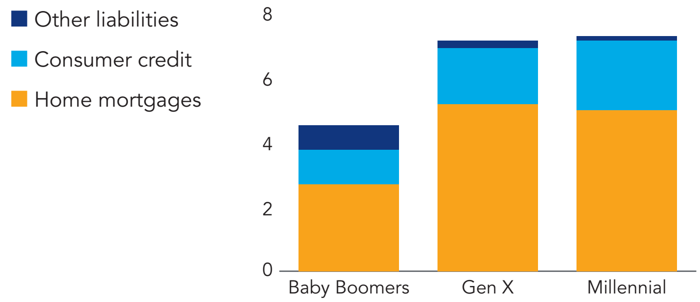
Source: Federated Hermes analysis; Board of Governors, Federal Reserve, Financial Accounts of the United States.

As described in previous generational balance sheet analysis, younger people have more of a retirement savings orientation than is often assumed. While older generations' retirement assets dwarf Millennials' assets, the younger cohort devotes more to retirement savings in their early 40s than Gen X did at the same point in their asset accumulation journey. Millennial retirement assets were 12.9% of their total assets in Q1 2024, compared to Gen X's 9.8% of total assets in retirement plans back in early 2007.

Mortgage debt continues to dominate

As noted, mortgage debt is the largest form of liabilities for each generation. Millennials are acquiring real estate at a solid pace and, while enjoying increases in the value of their homes, they are paying higher prices and have enjoyed less time to build up equity compared to older generations. Again, many homeowners in the early years of their homeownership journey could have refinanced when rates were low. Aside from real estate, Millennial debt for consumer credit such as auto loans rose to more than $2.1 trillion. The size of Gen X's debt in this category stayed about the same.

Liabilities by generation ($trillions)



Sources: Federated Hermes analysis; Board of Governors, Federal Reserve, Financial Accounts of the United States.

Student debt quadrupled from $300 billion in 2004 to $1.6 trillion in 2023 and remains among the three largest sources of families' non-mortgage debt, according to the New York Fed.[3] While student debt burdens can crowd out retirement savings for many, some help may be on the way with the student loan provision of the SECURE 2.0 law, which allows employers to match a percentage of a participant's student loan payment and direct the funds into a retirement plan. [At the time of this writing, the status of the Biden Administration student-loan forgiveness program is uncertain.]

Guiding towards a savings and planning orientation

While most advisors are rightly focused on the $84 trillion wealth transfer in the next decade to younger generations, they may have their work cut out for them to help younger investors develop good savings and investment practices. The good news is, compared to older generations, Millennials and Gen Z have had a head start. According to an annual study from the Transamerica Center for Retirement Studies, 85% of Millennials and 71% of Gen Z workers are saving in a 401(k) or similar workplace retirement plan and the median Millennial and Gen Z started much earlier at age 25 and 20, respectively.[4]

While majorities of younger generations have savings outside of retirement plans, fewer have written retirement savings plans or have a basic understanding of investment principles such as portfolio asset allocation.[5] In terms of broader financial planning, advisors can add value with the large Millennial generation as they join the smaller Gen Xers as a "sandwich generation" tasked with taking care of older parents and children at the same time.

The younger the investor, of course, the more day-to-day challenges might pull away funds that could be dedicated to goals-based saving. Many retirement surveys indicate both Gen Z and younger Millennials have the challenges of higher living costs (e.g., rent, food, transportation etc.), discretionary costs (e.g., travel, entertainment, etc.), student loans as well as covering second jobs as reasons for not dedicating more time and money to investing.

The generational balance sheet: Younger investors begin to push the envelope

Considerations for advisors

In our own study of registered investment advisors (RIAs) and independents—the Federated Hermes RIA and Independent Advisor Survey—advisors tell us that one of their major challenges is both acquiring younger clients as well as attracting younger financial professionals to their businesses. To be sure, we found that the average advisor is over 55 and that 65% of advisors say their "typical" new clients are either older or about the same age as before.

A good first step to attracting younger clients is being up to speed on the rapidly changing financial dynamics of younger generations. A 2024 McKinsey wealth management survey spelled out the stakes of disruption to traditional approaches to client acquisition.[6] For affluent and high-net-worth clients between the ages of 25 and 44, 25% to 30% of respondents found their primary advisor through some form of advertising (TV, print, social media, online paid search), centralized lead generation or recommendation by a financial institution (15% to 20%), or referrals by friends and family (5% to 10%). Once acquired, younger clients tend to stick with one advisory firm as a "one-stop shop": 73% of investors between 25 and 44 said they preferred to consolidate their financial affairs with one firm, up from 20% in 2018.

One RIA respondent to our survey representing a $3 billion wealth management firm believes in taking a long-term view of the client relationship with younger clients. He noted his firm will wave account minimums for so-called HENRY clients (high earning not rich yet) or professionals in their 30s and 40s that haven't made firm plans for saving or investing yet.

For advisors taking a total asset approach to younger generations, the up-side potential could be significant.

Alexi A. Maravel

Vice President

Alexi A. Maravel
Vice President

Alexi Maravel is vice president for market research and strategy for Federated Hermes. He joined in 2019 as a senior manager, focused on the research and creation of investment management thought leadership.

Alexi has more than 30 years of experience and is primarily responsible for developing and executing survey research and other types of analytics on a variety of investment-oriented topics including Environmental, Social and Governance (ESG) investing, public policy, retirement, institutional investing as well as products and strategies. Prior to joining Federated Hermes, Alexi was director of the institutional research practice at Cerulli Associates. Prior to that, he held a variety of institutional marketing and communications roles at Fidelity Investments, Capital Group Companies, Sun Life (US), and Putnam Investments.

Alexi received a bachelor's degree, *cum laude*, in journalism from Northeastern University. In 2022, he earned the CFA Institute Certificate in ESG Investing.

A Note on the Data

Other than the third-party data noted in this paper, all the analysis of each generation's balance sheet is compiled by Federated Hermes using the Federal Reserve Board's Financial Accounts of the United States, Distributional Financial Accounts as well as employment data from the Bureau of Labor Statistics' Current Population Survey. Datasets are adjusted for generational cohorts based on the Bridged-Race Population Estimates from the Centers for Disease Control (which replaced discontinued data from the U.S. Census Bureau and the National Center for Health Statistics). All data is presented in 2024 dollars. Generational definitions referred to in the text of this paper are from Pew Research: Baby Boomers born between 1946 and 1964, Gen X born between 1965 and 1980, Millennials born between 1981 and 1996, and Gen Z born between 1997 and 2012.

Special thanks to Hanne Richardson, Data Scientist II, at Federated Hermes.

[1] Federal Reserve Board data broadly categorizes "pension entitlements" as the present value of defined benefit pensions, assets in defined contribution retirement plans and annuity contracts.

[2] Leary, Patrick and Chris Morbelli. *Harnessing Growth and Seizing Opportunity: The Future of Workforce Benefits.* LIMRA and Ernst & Young (EY), July 2023.

[3] Federal Reserve Bank of New York. *Quarterly Report on Household Debt and Credit.* November 2023.

[4] Transamerica Center for Retirement Studies, 24th Annual Transamerica Retirement Survey of Workers, June 2024.

[5] *Ibid*

[6] Euart, John, Jonathan Godsall, Vlad Golyk and Jill Zucker. *US wealth management: Amid market turbulence, and industry converges.* McKinsey & Company, January 2024.